



CITY OF LAKE OZARK, MISSOURI

YEAR ENDED DECEMBER 31, 1999

**From The Office Of State Auditor
Claire McCaskill**

Report No. 2000-115
November 9, 2000
www.auditor.state.mo.us

AUDIT REPORT



Office Of The
State Auditor Of Missouri
Claire McCaskill

October 2000

www.auditor.state.mo.us

Some problems were discovered as a result of an audit conducted by our office in response to the request of petitioners from the City of Lake Ozark, Missouri.

The city does not have a formal bidding policy. As a result, the decision of whether to solicit bids for a particular purchase is made on an item-by-item basis. Although it appears the city did solicit bids for some purchases, bids were either not solicited or bid documentation was not retained in some instances. Examples include \$22,655 for a loader lease/purchase, \$35,438 for an excavator lease/purchase, \$1,835 for a postage meter, \$2,996 for police handheld radios, and \$1,325 for utility poles.

Formal bidding procedures provide a framework for the economical management of city resources and help ensure the city receives fair value by contracting with the lowest and best bidders. Competitive bidding also helps ensure all parties are given an equal opportunity to participate in the city's business.

The board does not review complete listings of all disbursements including the related invoices. Several expenditures were noted which do not appear to be a prudent use of public funds. Supporting documentation was not available for some credit card purchases and reimbursement requests.

Accounting duties are not adequately segregated and improvements are needed in controls over receipts.

The city's board minutes do not include sufficient detail of matters discussed and actions taken. The board minutes did not always include an adequate description of motions made and resolutions passed. The minutes and meeting agendas do not document the specific reasons for going into a closed session. Furthermore, the actions taken by the board in closed meetings are not generally recorded in the regular minutes or otherwise publicly posted.

The city has not performed a formal review of the adequacy of the sewer rates. The city's audited financial statements have shown losses of approximately \$498,000 and \$89,000 in the Sewer Fund during the years ended December 31, 1999 and 1998, respectively.

The city has not entered into formal written agreements for some services, including sewer, legal, accounting, and cleaning services.

(over)

YELLOW SHEET

The city's budgets are not retained with the official minutes and are not signed by the board to denote approval. In addition, budgets prepared by the city did not include some information required by state law, such as budget messages or general budget summaries describing the important features of the budget and major changes from the preceding years.

The city does not maintain complete records to account for all property owned by the city.

As also noted in our prior report for the municipal division, accounting duties are not adequately segregated. Monthly listings of open items are not prepared for the fine account. Procedures are not in place to follow up on old outstanding checks and bonds held by the municipal division. Warrants are not always issued when applicable for nonpayment or failure to appear. Police department employees responsible for collecting bonds are not bonded. Adequate records are not maintained to account for traffic tickets issued and their ultimate disposition.

CITY OF LAKE OZARK, MISSOURI

TABLE OF CONTENTS

	<u>Page</u>
STATE AUDITOR'S REPORT	1-2
HISTORY AND ORGANIZATION	3-5
MANAGEMENT ADVISORY REPORT.....	6-24
SUMMARY OF FINDINGS	7-8

<u>Number</u>	<u>Description</u>	
1	Expenditures	9
2.	Accounting Controls and Procedures.....	12
3.	Board Meeting, Minutes, and Ordinances	14
4.	City Sewer Rates	16
5.	City Contracts	17
6.	Compensation	18
7.	Property Tax Procedures	19
8.	Budgetary Practices.....	20
9.	Property Records	21
10.	Municipal Division	21



CLAIRE C. McCASKILL
Missouri State Auditor

To the Honorable Mayor
and
Members of the Board of Aldermen
City of Lake Ozark
Lake Ozark, Missouri 65049

The State Auditor was petitioned under Section 29.230, RSMo, to audit the city of Lake Ozark, Missouri. Our audit of the city included, but was not limited to, the year ended December 31, 1999. The objectives of this audit were to:

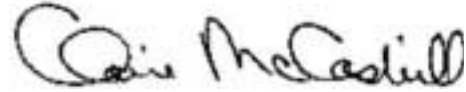
1. Perform procedures we deemed necessary to evaluate the petitioners' concerns.
2. Review compliance with certain constitutional provisions, statutes, ordinances, and attorney general's opinions as we deemed necessary or appropriate in the circumstances.
3. Review certain management practices which we believe could be improved.

Our audit was made in accordance with generally accepted government auditing standards and included such procedures as we considered necessary in the circumstances. We also reviewed board minutes, city policies and ordinances, and various city financial records.

Our audit was limited to the specific matters described above and was based on the selective tests and procedures considered appropriate in the circumstances. Had we performed additional procedures, other information might have come to our attention which would have been included in this report.

The accompanying History and Organization is presented for informational purposes. This information was obtained from the city and was not subjected to auditing procedures applied in the audit of the city.

The accompanying Management Advisory Report presents our findings and recommendations arising from our audit of the city of Lake Ozark, Missouri.

A handwritten signature in black ink, appearing to read "Claire McCaskill". The signature is fluid and cursive, with the first name "Claire" written in a larger, more prominent script than the last name "McCaskill".

Claire McCaskill
State Auditor

March 8, 2000 (fieldwork completion date)

The following auditors participated in the preparation of this report:

Director of Audits:	Karen Laves, CPA
Audit Manager:	David Holtmann, CPA
In-Charge Auditors:	Holly Gilstrap, CPA
	Amy Fast
Audit Staff:	Ted Fugitt, CPA

HISTORY AND ORGANIZATION

CITY OF LAKE OZARK, MISSOURI HISTORY AND ORGANIZATION

The city of Lake Ozark is located in Miller and Camden County. The city was incorporated in 1966 as a fourth-class city. The city consolidated with the village of Lake View in November 1998 and the village of Lakeland in May 1999. The population of the city in 1999 was estimated at 1,046.

The city government consists of a mayor and six-member board of aldermen. The six board members are elected for two-year terms. The mayor is elected for a two-year term, presides over the board of aldermen, and votes only in the case of a tie. The Mayor, Board of Aldermen, and other principal officials at December 31, 1999, were:

<u>Elected Officials</u>	<u>Term Expires</u>	<u>Actual Compensation for the Year Ended December 31, 1999</u>	<u>Bond Amount</u>
Gary Weber, Mayor	April 2001	\$ 1,800	\$
Steven Dalton, Alderman (1)	April 2000	900	
Larry Gridley, Alderman (1)	April 2000	900	
Paul Sale, Alderman (2)	April 2000	900	
Carolyn Berger, Alderwoman	April 2001	900	
Garrett Holmes, Alderman	April 2001	900	
Jill Wade, Alderwoman (3)	April 2001	675	

Other Principal Officials

Herb Llewellyn, City Administrator	42,000	10,000
Rachel Kelley, City Clerk	21,947	20,000
Judy Noser, City Treasurer/Court Clerk	18,356	60,000
Sandy Venis, Planning & Zoning Coordinator (4)	18,225	10,000
Shelly Cato, Collector of Revenue (5)	3,840	
Richard Ward, City Attorney	14,400	
D. Rodney Fire, Police Chief	30,741	
Rick Sturgeon, Superintendent of Public Works	32,773	

- (1) Steven Dalton was reelected in April 2000, running against Larry Gridley after the city changed its ward boundaries. Margaret Spurrier was also elected in April 2000.
- (2) Paul Garison was elected in April 2000 to replace Paul Sale.
- (3) Replaced Michael Coppinger in April 1999.
- (4) Sandy Venis was the City Collector thru September 1999, when she became the Planning & Zoning Coordinator and Assistant to the City Administrator. Greg Smith served as the Planning and Zoning Coordinator thru July 1999.

- (5) Shelly Cato was hired in November 1999. Shelly resigned in June 2000, and was replaced by Wilma Edwards.

Assessed valuation and tax rate information for 1999 and 1998 are as follows:

ASSESSED VALUATION

	<u>1999</u>	<u>1998</u>
Real estate	\$ 39,050,084	23,609,312
Personal Property *	<u>3,760,856</u>	<u>2,886,017</u>
Total	\$ <u>42,810,940</u>	<u>26,495,329</u>

TAX RATES PER \$100 ASSESSED VALUATION

General Fund	\$ 0.23	0.26
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* The city did not levy personal property taxes in 1999.

The city had the following sales taxes, rates are per \$1 of retail sales:

	<u>Rate</u>	<u>Expiration Date</u>
General	.010	none
Capital improvements	.005	none
Transportation	.005	none

MANAGEMENT ADVISORY REPORT

CITY OF LAKE OZARK, MISSOURI
SUMMARY OF FINDINGS

1. Expenditures (pages 9-12)

The city has no formal bid policy. The Mayor and the Board of Aldermen approve listings of bills, but do not review related invoices and supporting documentation. The city made several expenditures which do not appear to be a prudent use of public funds. Supporting documentation was not retained for some credit card purchases and mileage reimbursements were not properly documented. Expenditures are allocated to various funds without adequate supporting documentation.

2. Accounting Controls and Procedures (pages 12-14)

Accounting duties are not adequately segregated and improvements are needed in controls over receipts.

3. Board Meetings, Minutes, and Ordinances (pages 14-16)

The board minutes do not always include sufficient detail of matters discussed and actions taken by the Board of Aldermen. Board minutes also do not list the specific reason for going into closed session and the final disposition of matters resolved in closed session is not publicly disclosed. The city has negotiated additional provisions in sewer extensions which are not formally adopted in the city's ordinances.

4. City Sewer Rates (pages 16-17)

The city has not performed a formal review of the adequacy of the sewer rates.

5. City Contracts (pages 17-18)

The city has not entered into formal written agreements with the city of Lakeside for sewer services, the City Attorney, the local CPA for accounting services, and the cleaning service for City Hall.

6. Compensation (pages 18-19)

The board does not review and approve payments to the city employees. Several payments to city employees were not properly reported to the IRS as wages. Forms 1099 are not always filed as required.

7. Property Tax Procedures (pages 19-20)

The City Collector does not prepare monthly or annual reports of taxes collected or those that remain delinquent. In addition, the city is not billing delinquent taxes.

8. Budgetary Practices (pages 20-21)

Budgets were not prepared in accordance with state law and were not retained in the official minutes or signed by the board to indicate approval.

9. Property Records (page 21)

The city does not maintain complete records to account for all property owned by the city.

10. Municipal Division (pages 21-24)

Accounting duties are not adequately segregated. Monthly listings of open items are not prepared for the fine account. Procedures are not in place to follow up on old outstanding checks and bonds held by the municipal division. Warrants are not always issued when applicable for nonpayment or failure to appear. Police department employees responsible for collecting bonds are not bonded. Adequate records are not maintained to account for traffic tickets issued and their ultimate disposition.

CITY OF LAKE OZARK, MISSOURI
MANAGEMENT ADVISORY REPORT

1.	Expenditures
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- A. The city does not have a formal bidding policy. As a result, the decision of whether to solicit bids for a particular purchase is made on an item-by-item basis. Although it appears the city did solicit bids for some purchases, bids were either not solicited or bid documentation was not retained in some instances. Examples include \$22,655 for a loader lease/purchase, \$35,438 for an excavator lease/purchase, \$1,835 for a postage meter, \$2,996 for police handheld radios, and \$1,325 for utility poles.

Formal bidding procedures provide a framework for the economical management of city resources and help ensure the city receives fair value by contracting with the lowest and best bidders. Competitive bidding also helps ensure all parties are given an equal opportunity to participate in the city's business. Bids can be handled by telephone quotation, by written quotation, by sealed bid, or by advertised sealed bid. Various approaches are appropriate, based on dollar amount and type of purchase. Whichever approach is used, complete documentation should be maintained of all bids received and the reasons noted why the bid was selected. The bidding policy should also address procedures for opening sealed bids.

- B. The City Clerk provides the board monthly listings of bills to be paid; however, this listing does not include payroll and regular monthly expenditures. Fifteen of the twenty-three disbursements we selected were not recorded on the listings. In addition, although board minutes make a general reference that the listing of bills is approved for payment, the listings are not signed or initialed by the board members and retained with the official board minutes. Invoices are retained in monthly files, but these invoices are not reviewed by the board members.

To adequately document the board's review and approval of all disbursements, complete listings of bills should be signed or initialed by the board members to denote their approval and retained with the official minutes. In addition, the board members should review supporting documentation before payment is made to ensure all disbursements represent valid operating costs of the city.

- C. The following expenditures do not appear to be a prudent use of public funds:
1. The city holds an annual Christmas party which all city officials and employees, their spouses, and children are invited to attend. The city pays all of the costs related to the party which totaled approximately \$1,475 for the year ended December 31, 1999.

2. The board also approved a performance stipend of \$50 for all full time city employees. These cash payments totaling \$1,400 which appear to be bonuses were distributed to the city employees at the Christmas party.

Bonuses given to employees appear to represent additional compensation for services previously rendered and, as such, are in violation of Article III, Section 39 of the Missouri Constitution and are contrary to Attorney General's Opinion No. 72, 1955 to Pray, which states, "...a government agency deriving its power and authority from the Constitution and laws of the state would prohibit from granting extra compensation in the form of bonuses to public officers after the service has been rendered."

3. The city made a donation of \$245 during the year ended December 31, 1999 to the March of Dimes for a fund raiser.

The city's residents place a fiduciary trust in their public officials to expend public funds in a necessary and prudent manner. The above expenses do not appear to represent a necessary and prudent use of public funds.

- D. The city has two credit cards used by city employees for travel and other purposes. Adequate supporting documentation was not submitted or retained for some charges. Some items paid including meals and seminar costs were not supported by receipts or credit card slips.

Adequate supporting documentation should be retained for all credit card purchases, and reconciled to credit card statements to ensure the propriety of the charges. Adequate supporting documentation will help the city evaluate the necessity and reasonableness of credit card purchases.

- E. Reimbursements made to employees for mileage were seldom supported by adequate documentation. Many employee expense reports did not contain sufficient information such as the date of trip, trip origin, destination, and purpose. A detailed travel expense report including documentation supporting the expenses claimed will help the city determine the propriety of payments made for travel expenses.

Failure to require adequate supporting documentation for expenditures increases the risk that the city will pay for items not related to city purposes.

- F. Procedures established through city ordinance 88-25 to properly allocate expenditures among the various funds are not always followed.

1. The superintendent of public works' salary is allocated equally from the street and sewer fund. In addition, the city transfers monies from the sewer fund to the general fund monthly to reimburse it for administrative expenses. This allocation and transfer are not supported by adequate documentation.

2. Vehicles purchased for the sewer department and paid for out of the sewer fund, are also used by the street department for snow removal.

It is essential that the city properly allocate expenses to the various funds. Furthermore, the uses of certain funds, such as capital improvements and transportation sales taxes and state motor vehicle-related revenues, are limited by state law for specified purposes. Therefore, documentation and proper allocation of expenses is useful for both management and compliance purposes.

- G. The city does not always code expenditures to the appropriate expenditure line item. The board approved a training expenditure to be paid out of a capital line item. The board approved coding this expenditure in this manner because the training line item had been depleted. City personnel acknowledge this practice of coding expenditures where funds are available occur although it does not represent an accurate accounting of the actual expenditures. The city should ensure all expenditures are appropriately classified and amend the budget if necessary.
- H. During 1999, the city paid approximately \$14,700 to pave Lakeview Boulevard. Board minutes indicate all board members approved this transaction, including former Alderman Paul Sale, who lives on Lakeview Boulevard. Citizen concern was voiced because of the appearance of a possible conflict.

City officials should avoid any type of involvement in city decisions that relate to themselves. Discussions and decisions concerning transactions where potential conflict of interest exists should be completely documented and retained by the city to provide assurance that no city official has benefited improperly.

WE RECOMMEND the Board of Alderman:

- A. Establish formal bidding policies and procedures, including documentation requirements regarding the bids or quotes received and justification for the bid selected and procedures for opening sealed bids.
- B. Ensure listings of bills include all disbursements. Approval should be adequately documented by retaining a signed copy of the listing of bills with the board minutes. In addition, the board should review all invoices.
- C. Ensure all expenditures from city monies are a prudent use of public funds.
- D. Ensure adequate supporting documentation is submitted for all credit card purchases and reconciled to credit card statements to ensure the propriety of the charges.
- E. Ensure reimbursement requests include the purpose of miles driven, date, and destination.

- F. Ensure all expenditures are properly allocated to the various funds and the allocations are supported by adequate documentation.
- G. Ensure all expenditures are charged to the correct line item and amend the budget if necessary.
- H. Avoid transactions that represent actual conflicts of interest or the appearance of conflicts of interest. Such matters and transactions should be completely documented and retained in city records so the public has assurance that no city official has benefited improperly.

AUDITEE'S RESPONSE:

- A. *The city has adopted, by ordinance, a procurement policy.*
- B. *The bill paying procedure placed into effect this year is as follows: A bills list is first approved by the Board of Aldermen, then signed by the Mayor, and then checked by the City CPA to make sure that only the bills approved have been paid. A Finance Committee, made up of two members of the Board of Aldermen and the City CPA will be formed to review all bills before being presented to the Board of Aldermen for approval.*
- C. *The Board of Aldermen will ensure all expenditures of city monies are a prudent use of city funds.*
- D. *These bills are now reviewed by the Finance Committee before being approved by the Board and any undocumented bills will not be reimbursed.*
- E. *A standard form with all requested information is now being filled out by the employee and checked by the City Administrator or Finance Committee.*
- F. *The city will re-analyze appropriate mechanisms during the budget process to ensure revenues and expenses are attributed to proper funds.*
- G. *All expenditures will be recorded to the proper line item even if that item goes over the budget. The Board of Aldermen will then make, through ordinance, any adjustments necessary.*
- H. *The Board of Aldermen will always ask the City Attorney for his opinion prior to voting on issues where a conflict may appear.*

2.	Accounting Controls and Procedures
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- A. The following concerns were noted related to receipts:
 - 1. Receipt slips are not issued for all monies received by the city. Receipt slips are only issued for cash payments. To help ensure receipts are

properly recorded and deposited, official prenumbered receipt slips should be issued for all monies received immediately upon receipt.

2. The method of payment (i.e., cash, check, or money order) is not recorded on the receipt slips or the utility payment stubs. To ensure all receipts have been recorded properly and deposited intact, the method of payment should be recorded on each receipt slip or utility payment stub and the composition of receipts should be reconciled to the composition of bank deposits.
3. Receipt slips are not issued in numerical sequence for monies received by the city. To adequately account for all receipts, receipt slips should be issued in numerical order for all monies received and the numerical sequence should be accounted for properly. In addition, voided receipt slips are not retained. To ensure all receipt slips are properly accounted for, all voided receipt slips should be properly defaced and retained.
4. Checks and money orders received are not restrictively endorsed until the deposit is prepared. To reduce the risk of loss or misuse of funds, checks and money orders should be restrictively endorsed immediately upon receipt.
5. Receipts are kept in a file folder on the City Collector's desk until the deposit. To reduce the risk of theft, loss or misuse of funds, receipts should be kept in a secure location until deposited.
6. Some monies are not deposited intact. The city requires contractors to post an excavating bond when applying for an excavation permit. The monies are kept in a file cabinet until the work is complete and then given back to the contractor. Also, a property tax payment was returned to the payee due to overpayment rather than being deposited and the overpayment subsequently disbursed by city check.

To adequately safeguard receipts and reduce the risk of loss or misuse of funds, deposits should be made intact and all disbursements should be made by check.

- B. Accounting duties are not adequately segregated. The City Collector collects all monies, records transactions, prepares deposits, and makes the deposit. The City Clerk indicated she reviews the deposit, but this review is not documented.

To safeguard against possible loss or misuse of funds, internal controls should provide reasonable assurance that all transactions are accounted for properly and assets are adequately safeguarded. Internal controls could be improved by segregating duties to the extent possible. If proper segregation of duties cannot be achieved, at a minimum, there should be a documented independent review of the reconciliation between receipts and deposits.

WE RECOMMEND the Board of Aldermen:

- A.1. Require receipt slips be issued for all monies received.
2. Ensure the method of payment is recorded on each receipt slip or utility stub, and the composition of receipts is reconciled to the composition of deposits.
3. Require receipt slips to be issued in numerical sequence and ensure the numerical sequence of receipt slips is accounted for properly. In addition, voided receipts should be properly defaced and retained.
4. Restrictively endorse all checks immediately upon receipt.
5. Ensure receipts are kept in a secure location until deposited.
6. Deposit all monies intact and make subsequent refunds by check.
- B. Adequately segregate duties. If duties cannot be adequately segregated, at a minimum, there should be a documented review of the reconciliation between receipts and deposits.

AUDITEE'S RESPONSE:

- A.1. *The staff has been instructed to issue receipts for all moneys received.*
2. *The staff has been instructed to record the method of payment on all receipts.*
3. *The city now uses pre-numbered receipts and the staff has been instructed to attach voided receipts.*
4. *All checks are endorsed "For Deposit Only" upon receipt.*
5. *The city has installed a cash drawer at the counter to ensure security.*
6. *The city staff has been instructed to deposit all funds and issue checks for refunds.*
- B. *The staff has added additional checks and balances to segregate duties.*

3. Board Meetings, Minutes, and Ordinances

- A. The board minutes do not include sufficient detail of matters discussed and actions taken. The board minutes did not always include an adequate description of motions made and resolutions passed.
 1. The city entered into a lease agreement in July 1998 for sewer improvements constructed by a Neighborhood Improvement District

(NID). The lease agreement refers to a city resolution. However, there is no documentation of a formal resolution made by the board.

2. Although it appears the board approved the extension of the sewer line approximately two miles beyond the NID, along Highway HH, board minutes did not adequately document the motion made. The minutes stated only that a motion was made to accept the recommendation of the Public Works Director. No description of the recommendation was given.
3. The city sold two used police cars in January 2000. Although the sale was advertised and city records indicate the highest bid was accepted, board minutes contained no documentation of board discussion or approval of the sale of these vehicles.

The minutes are the official record of the actions of the board. Care should be taken to ensure the minutes are complete and provide reasons and specific intentions behind board decisions. Inadequate or unclear minutes can lead to subsequent confusion as to board intentions and possible incorrect interpretation of board actions by the general public, future board members, or other outside entities.

- B. The board minutes and the meeting agendas do not document the specific reasons for going into a closed session. The tentative agenda and the minutes normally list litigation, real estate transactions, and personnel issues as the reason to go into a closed session. In addition, several instances were noted where a reason was not specified.

Section 610.021, RSMo, allows the board to close meetings to the extent the meetings relate to certain specified subjects, including litigation, real estate transactions, personnel issues, some competitive bidding issues, confidential or privileged communications with auditors, etc. Section 610.022, RSMo, requires a closed meeting, record or vote be held only for the specific reasons announced publicly at an open session. In addition, this law provides that public governmental bodies shall not discuss any other business during the closed meeting that differs from the specific reasons used to justify such meeting, record, or vote.

- C. The city has a Sewer Extension Policy (Chapter 710, Municipal Code) which requires the developers to pay the costs of extending city sewer services to the new development. In addition, any system upgrades required by the city will be paid for by the city. On several occasions the city has made additional provisions in approving sewer extensions that call for the city to refund one-half (50 percent) of the new impact fees for connections to the line installed by the developer until their costs have been recovered, or for a period of five years, whichever comes first. These additional provisions have not been established by ordinance. To ensure equitable treatment to all parties, all provisions in granting sewer extensions should be defined by city ordinance and followed by the city.

- D. Actions taken by the board in closed meeting are not generally recorded in the regular minutes or otherwise publicly posted. Instead, the city's policy is to make them available upon request. Section 610.021, RSMo 1994, requires certain matters discussed in closed meetings to be made public upon final disposition.

WE RECOMMEND the Board of Aldermen:

- A. Ensure all significant discussions and actions taken are adequately documented in board minutes.
- B. Ensure minutes and the agenda state the specific reason for going into closed session, as required by state law.
- C. Ensure all provisions related to sewer extensions are formally adopted by city code.
- D. Publicly disclose the final disposition of applicable matters discussed in closed session.

AUDITEE'S RESPONSE:

- A. *The City Clerk will ensure that adequate discussion is contained in the minutes.*
- B. *The City Clerk will ensure that city records include reasons for convening into executive session.*
- C. *Each situation is different and the cost will vary considerably as well as the number of customers that will be served. The Board of Aldermen feels that each situation has to be based on its own merits.*
- D. *The city will publicly disclose the final disposition of applicable matters discussed in closed session.*

4. City Sewer Rates

The city has not performed a formal review of the adequacy of the sewer rates. The city's audited financial statements have shown losses of approximately \$498,000 and \$89,000 in the Sewer Fund during the years ended December 31, 1999 and 1998, respectively. In addition, the city entered into an agreement with the Lake Region Water and Sewer Company (LRWS) in March, 2000, to accept all wastewater generated by the region at a rate significantly less than the rate proposed by a professional study that calculated service charges.

City Ordinance 705.150 requires sewer user charges to be reviewed every year and that the sewer rates be set at an amount adequate to generate revenues to cover the costs of operation, maintenance, and replacement of the system. Although the city approves the

sewer rates in May of each year, no formal review has been performed to document the adequacy of the rate structure.

WE RECOMMEND the Board of Aldermen review the sewer rates to ensure revenues are sufficient to cover all costs of providing this service. In addition, the city should review the agreement with the LRWS to ensure rates are sufficient to cover all costs.

AUDITEE'S RESPONSE:

The city will ensure that rates are analyzed annually (in May) and that the rates are sufficient to cover all costs.

5. City Contracts

The city has not entered into formal written agreements for some services.

- A. The city provides sewer services to the city of Lakeside. The city of Lakeside is billed at the city's rate plus a 25 percent surcharge. The city made a verbal agreement with the city of Lakeside regarding this rate, but a written agreement does not exist.
- B. The city annually appoints a local attorney to serve as City Attorney. Payments to the City Attorney totaled \$14,400 for the year ended December 31, 1999. The city has not entered into a written agreement with this individual.
- C. In 1993, the city entered into a contract with a local CPA for management advisory and financial accounting services. Although the fees paid to the CPA have increased since that time, the original contract has not been updated. Payments to the CPA totaled \$6,224 for the year ended December 31, 1999.
- D. The city has used the same individual to clean City Hall for several years. This individual is paid \$100 per month. The city has not entered into a written agreement for cleaning services.

Section 432.070, RSMo 1994, requires contracts for political subdivisions to be in writing. The city should enter into written contracts for services rendered or obtained. A written contract, signed by the parties involved, should specify the services to be rendered and the manner and amount of compensation to be paid. Written contracts are necessary to ensure all parties are aware of their duties and responsibilities and to provide protection to both parties.

WE RECOMMEND the Board of Aldermen enter into formal written contracts, in accordance with state law, which specify the goods or services to be provided and the amount of compensation to be paid. Contracts should adequately detail the rights and duties of all parties and should be properly updated and/or extended when necessary.

AUDITEE'S RESPONSE:

The city's policy has been to charge entities outside of the city limit a 25 percent surcharge. During the revision of the sewer extension policy, the surcharge amount has inadvertently been omitted while the city practice continued assessing the 25 percent surcharge. The city will review the ordinance and up date the surcharge amount. The city will enter into contracts with the City Attorney, CPA, and with the cleaning service.

6. Compensation

- A. The city has a policy to pay for sick leave and vacation leave under certain situations (to reward full attendance and vacation pay if unable to use within a year of earning the vacation time). The city's policy requires the city administrator to approve payment of any unused vacation. During the year ended December 31, 1999, the City Administrator requested payment totaling \$1,292 for his "wellness days" and unused vacation time without obtaining approval from the board. In effect, the City Administrator authorized his own payment without the approval of the Board of Aldermen.
- B. The following payments to city employees were not properly reported to the Internal Revenue Service (IRS):
 - 1. The payment made to the City Administrator totaling \$1,292 (see Part A, above), was not included on his W-2 form.
 - 2. The city distributed bonuses (MAR No. 1.C.) totaling \$1,400 (\$50 per full time employee) which was not included on the employee's W-2 forms.
 - 3. A phone allowance of \$32 per month is paid to the City Administrator, the Police Chief, and the Superintendent of Public Works and \$6 per month to the City Treasurer in addition to their salary. These individuals are not required to submit to the city an itemized report of phone expenses incurred on the city's behalf, and this expense allowance is not reported on the W-2 forms.

Internal Revenue Service Regulation No. 31.3401(a)-4 specifically requires expenses not accounted for to the employer to be considered as gross income and also requires payroll taxes to be withheld from this gross income.
 - 4. The City Administrator and the Mayor received \$200 each in 1999 for working the firework displays on the lake. The fireworks display is sponsored by the Betterment Committee. The additional compensation was not included on the W-2 forms. In addition, the payments to the Mayor appear to violate Section 105.458, RSMo 1994, which prohibits elected officials from performing services for additional compensation.

- C. The city did not always file Forms 1099 with the Internal Revenue Service. The Internal Revenue Code requires payments of \$600 or more for services by nonemployees (other than corporations) be reported to the federal government on Forms 1099. During the year ended December 31, 1999 the city paid one individual \$600 for the public restrooms lease and another individual \$1,325 for installing five utility poles.

WE RECOMMEND the Board of Aldermen:

- A. Review and approve all payments to the City Administrator.
- B. Ensure all employee compensation is properly reported to the IRS. The city should require documentation of actual expenses incurred or include the amounts on the employees W-2 forms and withhold applicable payroll taxes from the allowances. In addition, the city should refrain from paying additional amounts to the Mayor or Board of Aldermen that is not specifically approved by ordinance.
- C. Ensure that IRS Forms 1099 are filed as required for prior years as well as the future.

AUDITEE'S RESPONSE:

- A. *Any payments to the City Administrator other than his regular paycheck will be approved by the Board of Aldermen and the check signed by the Mayor.*
- B. *The staff will ensure that all employee compensation is reflected on W-2 forms.*
- C. *Our new accounting system will allow us to flag any person receiving \$600 or more to receive a form 1099.*

7. Property Tax Procedures

- A. The City Collector's duties include billing, collecting, and depositing property tax receipts. Monthly and annual reports were not prepared by the City Collector summarizing the amount of property taxes collected as well as those that remain delinquent.

Sections 79.310, 94.320, and 94.330, RSMo 1994, require reports to be submitted to the board of aldermen indicating the amount of taxes collected and taxes remaining delinquent. The board is to examine and approve the lists and charge the tax collector with the collection of delinquent taxes. Section 94.330, RSMo 1994, also provides that the board may declare worthless any and all personal delinquent taxes which they may deem uncollectible.

Monthly and annual reports which comply with state law and are classified by type of tax would help provide assurance taxes have been properly collected, written off, or determined to be delinquent.

- B. The City Collector has not billed delinquent taxes in the past. The City Collector indicated only current taxes can be billed through the computer system. Past due amounts have to be manually entered on the computer and will be for this year's billings.

WE RECOMMEND the Board of Aldermen:

- A. Require monthly and annual reports of property taxes collected and delinquent.
- B. Pursue collection of all delinquent taxes.

AUDITEE'S RESPONSE:

- A. *The City Collector will issue a monthly report to the Board of Aldermen listing all delinquencies in taxes, sewer, water, and trash.*
- B. *The Board of Aldermen will adopt a policy to dispose of property with delinquent taxes owed during the next year.*

8. Budgetary Practices

Although the board minutes make general references that the annual budgets were adopted, the budgets are not retained with the official minutes and are not signed by the board to denote approval. In addition, the budgets prepared by the city for the years ended December 31, 2000 and 1999, did not include some information required by state law. The budgets did not include budget messages or general budget summaries, describing the important features of the budget and major changes from the preceding years. The budget prepared for the year ended December 31, 1999, did not include beginning and projected ending fund balance or a statement of estimated or actual revenues and expenditures for the two preceding budget years.

Sections 67.010 through 67.040, RSMo 1994, set specific guidelines as to the format and approval of the annual operating budget. A complete and well-planned budget, in addition to meeting statutory requirements, can serve as a useful management tool by establishing specific cost and revenue expectations for each area of city operations. A complete budget should include appropriate revenue and expenditure estimations by classification, and include beginning and estimated ending fund balances. Prior year comparisons of actual revenues and expenditures need to be included to help ensure accurate amounts are budgeted.

WE RECOMMEND the Board of Aldermen sign or initial budgets and retain them with the official minutes. In addition, the board should ensure annual budgets include all relevant information required by state law.

AUDITEE'S RESPONSE:

This will be done with the next budget process.

9. Property Records

The city does not maintain complete records to account for all property owned by the city. Property records should be maintained on a perpetual basis, accounting for property acquisitions and dispositions as they occur. The record should include a detailed description of the assets including the name, make and model numbers, an asset identification number, the physical location of the assets, and the date and method of disposition of the assets when disposed of. In addition, all property items should be identified with a tag or other similar device, and the city should conduct annual inventories.

Adequate general fixed asset records are necessary to secure better internal control and safeguard city assets which are susceptible to loss, theft, or misuse, and provide a basis for determining proper insurance coverage required on city property. A similar comment was made by the city's auditor during their annual audit.

WE RECOMMEND the Board of Aldermen ensure property records are maintained which include all pertinent information for each asset such as tag number, description, costs, acquisition date, location, and subsequent disposition. Additionally the city should properly tag, number, or otherwise identify all applicable city property and conduct an annual inventory.

AUDITEE'S RESPONSE:

The staff will develop a plan to track fixed assets and present the plan to the Board of Aldermen for approval within the next year.

10. Municipal Division

- A. Accounting duties are not adequately segregated. Currently, the Court Clerk is responsible for receiving, recording, and depositing all monies and for preparing and signing checks and reconciling bank statements. There is no independent review of the work performed by the Court Clerk.

To safeguard against possible loss or misuse of funds, internal controls should provide reasonable assurance that all transactions are accounted for and assets are adequately safeguarded. Internal controls could be improved by segregating the duties of receiving and depositing monies from that of recording receipts and preparing disbursements. If proper segregation of duties cannot be achieved, at a minimum, there should be an independent review of the reconciliations between

receipts and deposits and an independent review of bank statements and bank reconciliations.

- B. Monthly listings of open items (liabilities) are not prepared for the fine account. At our request, the Court Clerk prepared a listing as of December 31, 1999. The cash balance exceeded the open items listing by \$2,299. In addition, the listing included restitution and overpayments dating back to 1996.

Monthly listings of open items should be prepared and reconciled to cash balances to ensure monies have been properly recorded and handled and sufficient funds are available for the payment of all liabilities. Any differences identified through the reconciliation process should be resolved in a timely manner. The Court Clerk should attempt to disburse restitution and overpayments and identify the remaining balance in the account. Unidentified or unclaimed monies remaining in the account should be disbursed in accordance with state law.

- C. Outstanding checks totaling \$2,741 in the bond bank account and \$1,189 in the fine bank account have been outstanding for more than one year. Outstanding checks should be periodically reviewed to determine if the payees can be readily located and if there is a need to reissue the checks. If payees cannot be located, Sections 447.500 through 447.595, RSMo 1994, which relate to unclaimed property, should be used to disburse these monies.

- D. The municipal division has not implemented adequate procedures to follow up on cash bonds held for more than one year. As of December 31, 1999, the balance of the municipal division's bond account included bond receipts totaling \$3,540, which have been held in excess of one year.

An attempt should be made to determine the proper disposition of these bonds. A review should be made of any bonds posted by persons who failed to make the required court appearance to determine if the bonds should be forfeited and if monies should be paid over to the city treasury as provided by Section 479.210, RSMo 1994. For those bonds which cannot be forfeited and remain unclaimed, Section 447.595, RSMo 1994, requires cash bonds remaining unclaimed for one year after disposition of the case be turned over to the state's Unclaimed Property Section.

- E. In three instances out of sixty cases reviewed the Court Clerk failed to issue a warrant or an order to show cause for nonpayment or failure to appear. There were also five instances when the case file indicated a warrant had been issued, but the warrant did not appear on the state warrant system.

Proper and timely issuance of warrants for amounts due to the court and for failure to appear helps to maximize court revenues along with providing equitable treatment for those citizens who are paying fines and court costs when due.

- F. Employees of the police department collect cash bonds. These individuals are not bonded. Failure to properly bond all persons with access to assets exposes the municipal division and the city to risk of loss.
- G. Neither the police department nor the municipal division maintains adequate records to account for traffic tickets issued and their ultimate disposition. Although the Court Clerk maintains a log of tickets issued, that log does not include voided tickets or tickets filed with the state court.

Without a proper accounting of the numerical sequence and ultimate disposition of all tickets, the police department and the court cannot be assured that all tickets issued are properly submitted to the traffic violations bureau (TVB) or Associate Circuit Court.

- H. The city operates a TVB to receive payment of fines and court costs at times other than during court. A schedule which specifies the offenses which may be paid at the TVB and the amount of fines and costs to be imposed for each offense has been established; however, this schedule of fines and court costs has not been prominently posted at the TVB. Section 479.050, RSMo 1994, and Supreme Court Rule 37.49 requires a schedule which designates the offenses within the authority of the TVB clerk and the amount of fines and costs to be imposed for each offense to be prominently posted at the TVB.

Conditions similar to A-D, F, and G were noted in the prior audit report of the city of Lake Ozark Municipal Division for the two years ended December 31, 1995. The Municipal Division responded that it would implement these recommendations; however, little or no corrective action has been taken. These deficiencies are serious and should be corrected immediately.

WE RECOMMEND the city of Lake Ozark Municipal Division:

- A. Adequately segregate duties or establish procedures for independent review.
- B. Prepare monthly listings of open items and reconcile to the cash balance. Any differences should be investigated and resolved in a timely manner. In addition, the municipal division should attempt to disburse restitution and overpayments and identify and disburse the remaining balance in the account. Any remaining unidentified monies should be disbursed in accordance with state law.
- C. Periodically review outstanding checks to determine if the payees can be located and if the checks can be reissued. If the payees cannot be located, the monies should be disbursed in accordance with state law.
- D. Implement procedures to follow up on cash bonds in a timely manner and dispose of them in accordance with state law.
- E. Ensure warrants are issued when necessary and that all warrants are properly recorded on the state warrant system.

- F. Request the city to obtain bond coverage for all persons handling municipal division monies.
- G. Maintain a complete ticket log in order to account for the numerical sequence and ultimate disposition of all tickets assigned and issued.
- H. Prominently post the schedule of fine and costs at the TVB as required.

AUDITEE'S RESPONSE:

- A. *The City Clerk is now reviewing the financial aspects of the court.*
- B. *The administrative staff is now reconciling monthly cash balances.*
- C. *The staff has been instructed to annually review outstanding checks.*
- D. *The staff has implemented procedures to follow up on cash bonds.*
- E. *The staff will issue warrants when necessary.*
- F. *Bond coverage for all employees has been obtained.*
- G. *The staff is updating the ticket log to include all tickets issued by the Police Department.*
- H. *The TVB fine schedule has been posted.*

This report is intended for the information of the city's management and other applicable government officials. However, this report is a matter of public record and its distribution is not limited.

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